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C O N F I D E N T I A L SEOUL 000655

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TAGS: [PGOV](#) [PREL](#) [PARM](#) [KS](#) [KN](#)
SUBJECT: APRIL 21 SOUTH-NORTH MEETING AT KAESONG: NO
DIALOGUE

Classified By: POL M/C Joseph Yun. Reasons 1.4 (b/d).

¶1. (C) SUMMARY: South Korean officials went to the Kaesong Industrial Complex (KIC) on April 21 at the North's request for the first civilian inter-Korean meeting since President Lee Myung-bak's February 2008 inauguration hoping to discuss several urgent issues: the welfare of a South Korean engineer detained there since March 30; the South's intention to join the Proliferation Security Initiative (PSI); restrictions on KIC access imposed in December 2008; and the North's hostile rhetoric, especially against ROK President Lee. After a day-long standoff over where the meeting was to be held, ROKG officials were disappointed that the North focused only on KIC cost issues -- land-lease terms and workers' wages -- during a 22-minute evening meeting at the North Korean management office. In the coming days, the ROKG will review how to respond to the DPRK's request. Some in the ROKG, especially the Ministry of Unification, will see an opening for a new round of dialogue; others will see it as another example of Pyongyang's unilateral demand for money. Caught up in all of this is the fate of PSI. Our MOFAT interlocutors have confirmed that the decision to join PSI on full participation basis is irreversible; the only question is the timing. END SUMMARY.

Nothing on Detainee

¶2. (SBU) The North convoked the South to the April 21 meeting in an April 17 message that cited the need to talk about a "serious issue" related to the KIC. Uppermost on South Koreans' minds was the fate of a Hyundai Asan engineer who has been detained at the KIC since March 30 after North Korean authorities accused him of insulting their government and trying to incite a female North Korean worker to defect. The ROKG asserts that the DPRK has an obligation to expel, possibly adding a fine, any South Korean accused of wrongdoing at the KIC, but cannot hold the suspect indefinitely. Hence, a prime reason for the ROKG to accept the North's invitation, absent an agenda, was out of concern for the safety of its citizen. In its press release reporting on the April 21 meeting, the ROKG stressed its disappointment at receiving no information about or access to the detainee (see text at para 10).

¶3. (C) Hyundai Asan Chairman Cho Kun-shik, formerly Vice Minister of Unification, has spent days at the KIC trying to gain access to the detainee, Mr. Yu. North Korean authorities at the KIC told him on April 17 that Yu's release was imminent, Hyundai Asan Vice President Jang Whan-bin told us on April 22, but the decision was apparently reversed over

the weekend. Jang surmised that the North may have seen the South's waffling about whether to join PSI and had decided to "use the detainee care" a while longer. Hyundai Asan has been requesting access to Mr. Yu daily, to no avail.

KIC Cost Issues

¶4. (SBU) Instead of addressing the detainee or other inter-Korean issues, the North made two points related to KIC finances: (1) that the North was planning to unilaterally change its 2004 decision to defer land-use taxes for 10 years; and (2) that North Korean workers' wages needed to increase.

¶5. (C) Commenting on both issues, Hyundai Asan Senior Vice President Jang Whan-bin said that the North had received a USD 16 million land-use payment in 2004 granting Hyundai Asan and the Korea Land Corporation use of the 3.3 million square meters of KIC land for 50 years. At the time, the North had agreed to defer land-use taxes (property taxes) for 10 years, to give companies a chance to get established. Jang said the North could indeed unilaterally decide to impose such taxes, at rates to be determined, now or whenever it wanted, but imposing taxes would deter future investors. Similarly, the North could try to negotiate wage increases. The initial KIC agreement allowed for wage increases of a maximum of five percent per year each year, but in practice wages, initially USD 50/month, had increased twice since 2004, now at USD 70/month. Jang wondered whether the North would push for a large wage increase to make up for "unused" increases, but

cautioned that companies would balk at excessive increases.

¶6. (C) KIC's largest factory, Shinwon Co., with more than 1,000 North Korean employees, showed bigger concern about a possible wage increase than a review of the land-use tax. Choi Jin-woo, Manager of Shinwon Secretary's Office, said that Shinwon signed a 50-year lease in 2005 with government-run Korea Land Corporation, agreeing to pay approximately USD 115 per pyung (equivalent to 3.3 square meters). As far as Shinwon and other KIC companies were concerned, North Korea's proposal to revise the existing land-use tax was "their problem," referring to the ROKG and Hyundai Asan. However, a potential wage increase posed a "huge problem," according to Choi. Shinwon's core concern was that the North may ask for a wage increase that was comparable to the labor cost in China, or about USD 200/month. Choi said the biggest attraction for the KIC -- despite big political risks and uncertainties -- was low labor costs, but Shinwon would have to "seriously reexamine" its operations in the KIC if the North's demand for wage increase was excessive. Other advantages of doing business in the KIC, such as three-hour transportation time and no customs fee, would not keep his company in the KIC in case of a dramatic wage increase.

South's Points Not Heard

¶7. (SBU) Testifying before the National Assembly on April 22, Minister of Unification Hyun In-taek emphasized the unilateral nature and negative atmosphere of the talks, even after the 12-hour standoff over where the talks would be held. After hearing the North's statement, the South had tried to state its points (see para 10), but the North "attempted to restrain the South Korean side from reading the statement." The South had handed over its statement to the North's lead delegate, who seemed to have read the statement, but after the meeting the North returned the paper to the South's delegation, in effect refusing to take the message to Pyongyang.

18. (C) MOFAT Director General for International Organizations Bureau Shin Dong-ik told POL M/C on April 22 that the ROKG's commitment to fully participate in the PSI remained unchanged despite its postponed public announcement. Shin explained that the decision to participate was finalized on April 14, but the planned next-day announcement did not take place, because some feared that the PSI announcement may negatively affect the KIC detainee. When the DPRK message regarding an April 21 meeting request arrived, the ROKG decided to further postpone the PSI announcement until after the meeting. While the actual announcement date had yet to be determined, Shin confirmed that the decision to participate was firm and final.

19. (C) Turning to North Korea's comment on the PSI as a "declaration of war," Shin said that the North's rhetoric was not taken seriously within the ROKG because "it's nothing new." Shin believed that the North Korean statements were targeted toward the South Korean public, rather than South Korean policy makers, to "arouse fear." Shin himself seemed immune to the North's hostile statements, adding that "technically, the two Koreas are still at war."

ROKG Statement

10. (U) Text of ROKG statement about the April 21 meeting (Embassy translation):

BEGIN TEXT

South and North Korea held several contacts at the Kaesong Industrial Complex and exchanged their positions. At the talks, the North Korean side stated its position as follows:

- First, we (North Korea) will review all institutional benefits it has given to the South for the Kaesong Industrial

Complex project. To this end, North Korea will revise the contract on the land lease at the Kaesong Industrial Complex that currently places a 10-year grace period for payment of land use fees from 2014 to instead make South Korea pay the fees after a six-year grace period. Wages for North Korean workers at the complex will be adjusted.

- Second, the North Korean side will start negotiations to review existing contracts related to the Kaesong Industrial Complex project. The South will have to faithfully respond (to the proposed changes).

Regarding these matters, our (South Korean) side expressed our position on South-North relations and current issues as follows:

- First, North Korea must immediately end its behavior that escalates tension and invokes regret and disappointment for South Korea as well as those of the international community, such as declaring the invalidity of inter-Korean agreements that aim to ease political and military confrontation.

- Our side clearly pointed out that our activity in the PSI (Proliferation Security Initiative) that the North Korean side is criticizing, is an issue of universal value sought by mankind for security, and that North Korea's claim that it is a declaration of confrontation and a declaration of war is unreasonable. This is because South Korea's joining PSI will not affect the waters near the Korean Peninsula covered by the inter-Korean maritime agreement.

- Second, regarding the issue of the South Korean individual being held at Kaesong, our side pointed out the North Korean side is violating inter-Korean agreements and urged the North Korean side to immediately hand the person over to the South.

Third, our side urged the North Korean side to withdraw its restrictions on border crossing and duration of stay that it has been enforcing since December 1 (2008).

Fourth, noting that we do not criticize North Korea's highest leader as the South and the North have agreed to mutually respect each other, we urged North Korea to immediately stop its slander and libel against our chief of state.

Lastly, our side proposed a new round of talks between the governments of the South and the North to resolve current inter-Korean issues, including the issue of access to the Kaesong complex (by South Korean workers) and their stay at Kaesong.

In particular, our side strongly demanded that the North hand over the detained South Korean employee.

- This violates Article 10.3 of the 2004 "Agreement on the Entry and Stay in the Kaesong Industrial Complex and Mt. Kumgang Tourist Zone."

- If the North does not immediately release the detainee, our government will come out with a strong response and we clearly state that all responsibility for ensuing events will lie with the North.

- The North rejected our demands saying that the detainee issue is irrelevant to the talks.

- Recognizing the importance of this issue, we delayed our trip back to the South and urged the North to grant access to the detainee and ask for the detainee's release.

- Today's talks had several problems in format/proceedings, one being that there was no specific agenda determined prior to talks.

- Nevertheless, the South Korean delegation traveled to Kaesong because of our perception of the gravity of the detainee issue, which has implications on the treatment of our citizens and inter-Korean relations in general.

- Also it is difficult to understand why the North rejected our request to consult on the investigation of the detainee)- the most important issue)- when it was the North that had first requested a visit by South Korean officials.

- Also, the North did not respond to our calls for mutual cooperation in developing KIC or our request for them to withdraw its restrictions on border crossing and duration of stay that has been enforced since December 1 (2008).

- We regret that the North)- despite its difficult internal situation -- continues to carry out actions that are difficult to understand, such as spending a vast amount of money on its rocket launch.

- Nevertheless, we will wait with patience and keep the door open for dialogue. We urge the North to respond.

- We clearly conveyed this message during the talks.

- We hope that the North will come out for dialogue and develop inter-Korean relations and participate in international efforts to promote peace and stability on the Korean peninsula.

- Despite the difficult situation today, our delegation made its utmost effort to guarantee the safety of the detainee and request the North to hand over the detainee.

- We regret that we were unable to get the intended results and we express our apology to the detainee's family.

- We will take a resolute response if the North unilaterally

proceeds with the issue, and we also warned the North that this will result in serious consequences.

- We point out that the North should take our warning seriously.
- The ROKG will continue to make the utmost effort to bring the detainee back to the South.

END TEXT

COMMENT

11. (C) The DPRK delegation's narrow focus is consistent with past behavior, where specific North Korean entities have latitude only to talk about items in their "lane," such as KIC authorities discussing KIC cost issues and military authorities discussing military-to-military communications. Hence, the North's KIC authorities could argue that the detainee's situation is a legal issue beyond their purview. At the same time, the North's refusal to address the KIC detainee or even other KIC irritants that have emerged over the past year was a calculated political insult to the Lee Administration, reinforcing the hostile atmosphere. Still, Seoul must respond in some manner to Pyongyang's demand to negotiate the new -- presumably -- much higher rent and wages in the KIC; a nasty opening, but still an opening for a dialogue. In the coming days, the ROKG will weigh all the pros and cons of such an opening, with the Ministry of Unification pressing vigorously for a new round of discussions with the North, while cautious elements in the Blue House and MOFAT will want to stress the importance of not responding too early or too fast to Pyongyang's aggressive unilateral demands. Caught in this review is the ROKG announcement on its full endorsement of the PSI. An early announcement is a good indicator that the LMB administration intends to stay the course on its "reciprocity" based North Korea policy.
STEPHENS